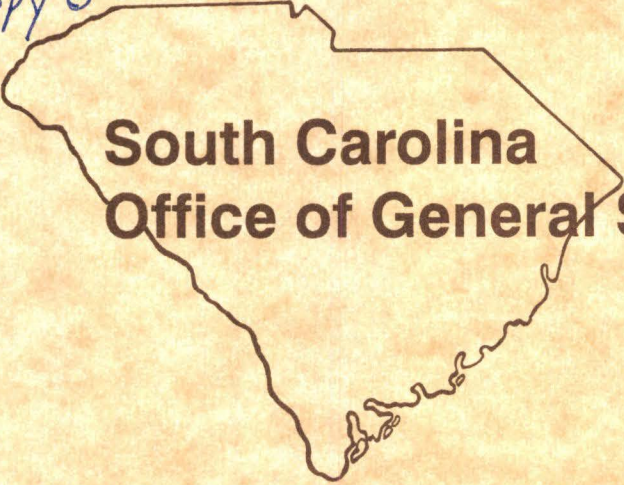


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**South Carolina
Office of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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STATE DOCUMENTS

**SOUTH CAROLINA DEPARTMENT OF
CORRECTIONS**

AGENCY

JULY 1, 1996 – JUNE 30, 1999

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES

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MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
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(803) 737-0600
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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

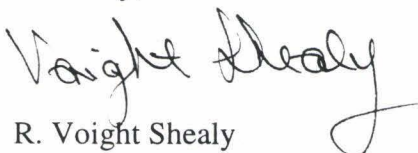
March 3, 2000

Mr. Robert W. McClam, Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Robbie:

I have attached the South Carolina Department of Corrections' procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department a three year certification as noted in the audit report.

Sincerely,


R. Voight Shealy
Materials Management Officer

/jl

**SOUTH CAROLINA DEPARTMENT OF CORRECTIONS
PROCUREMENT AUDIT REPORT**

JULY 1, 1996 - JUNE 30, 1999

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NOTE: The Department's responses to issues noted in this report have been inserted immediately following the items they refer to.

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

January 28, 2000

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Department of Corrections for the period July 1, 1996 through June 30, 1999. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations and the Department's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Corrections is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process,

that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Corrections in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry G. Sorrell".

Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Department of Corrections. Our on-site review was conducted September 8, 1999 through October 14, 1999, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the Department in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Office of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

On March 11, 1997 the Budget and Control Board granted the Department the following procurement certifications:

<u>Procurement Areas</u>	<u>Certification Limits</u>
Goods and Services	\$100,000 per commitment
Construction Materials and Equipment	\$100,000 per commitment
Information Technology	\$100,000 per commitment
Consultant Services	\$50,000 per commitment
Construction Services	\$50,000 per commitment

Our audit was performed primarily to determine if recertification is warranted. No additional certification was requested.

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Department of Corrections and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected judgmental samples for the period July 1, 1997 through June 30, 1999 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period July 1, 1996 through June 30, 1999
- (2) Procurement transactions for the period June 1, 1997 through June 30, 1999 as follows:
 - a) One hundred forty-five payments each exceeding \$1,500
 - b) A block sample of three hundred numerical purchase orders for order splitting and favored vendors
- (3) Seven major construction contracts and five professional service contracts for compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Minority Business Enterprise Plans and reports for the audit period
- (5) Information technology plans for the audit period
- (6) Internal procurement procedures manual
- (7) Procurement file documentation and evidence of competition
- (8) Surplus property procedures

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Corrections, hereinafter referred to as the Department, produced the following findings and recommendations.

	<u>PAGE</u>
I. <u>Sole Source and Emergency Procurements</u>	
A. <u>Inappropriate Sole Sources</u>	8
Fourteen procurements were inappropriate as sole sources.	
B. <u>Inappropriate Emergency</u>	9
One emergency procurement was inappropriate.	
C. <u>Drug Free Workplace Certification Not Obtained</u>	9
The Department has not been requesting the drug free workplace certification on sole source and emergency contracts of \$50,000 or more.	
II. <u>Construction and Construction Related Services</u>	
A. <u>Unauthorized Procurement of Architect and Engineer (A/E) Services</u>	10
One procurement of architect/engineer services was not supported by approval from the State Engineer.	
B. <u>Change Orders Not Submitted Timely</u>	10
Six change orders for the construction of the Northside Prison Industries Building were not submitted to the State Engineer timely.	
III. <u>Procurement Audit Exceptions</u>	
A. <u>Two-Way Radio Repair Contract Needed</u>	10
Our review of a contract for two-way radio repairs revealed a major service being rendered by one vendor without any competition.	
B. <u>Procurements Without Competition</u>	11
Tires and a van were procured without competition. Both procurements referenced contracts that did not apply.	
C. <u>Quantities Not Specified in Solicitations</u>	12
Estimated quantities to be purchased were not provided in two solicitations.	

PAGE

D. File Documentation

13

Two procurements did not have adequate documentation in the files.

E. Inadequate Solicitations of Competition

13

Two of the written quotes to support the procurement of lumber were old quotes.

IV. Procurement Office Needs Information Technology Upgrade

14

The Procurement Office needs to upgrade its information technology equipment.

V. Procurement Procedures Manual

14

The procurement procedures manual is being updated to reflect the most recent changes to the Code and regulations. The manual needs to be sent to our office for review.

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

A. Inappropriate Sole Sources

The following fourteen sole source procurements were inappropriate.

<u>Purchase Order</u>	<u>Description</u>	<u>Amount</u>
H000230590	Prep mechanically and install flooring	12,261
H300023258	Remove existing flooring and install new	42,465
H300025628	Remove existing flooring and install new	45,027
H300027874	Non skid epoxy floor refinisher	4,557
H000225456	Non skid epoxy floor resurfacer	3,371
H000226296	Non skid epoxy floor resurfacer	22,220
H300025315	Locks and component parts	14,464
H300010310	Locks and component parts	18,034
H300010323	Locks and component parts	6,154
H300012882	Locks and component parts	10,280
I000218005	Locks and component parts	96,045
H300017921	Locks and component parts	15,100
0300018760	Digital microfilm reader/ printer	15,050
0100151657	Consultant for emergency preparedness training	80,000

Section 11-35-1560 of the Code requires that sole source procurements only apply when there is only one source for the required supply, service, or construction item. Other vendors are available that could have supplied the items listed.

We recommend that procurements which do not meet the definition of a sole source be competed in accordance with the Code and regulations.

DEPARTMENTS RESPONSE

The six procurements for installing a tuffco flooring in the cafeterias and the epoxy non-skid flooring for showers will be bid.

The six procurements for locks and component parts will be bid in order for the dealers to complete against the manufacturer's pricing.

The procurement for the digital microfilm reader/printer was made to satisfy the requirement of the ultimate user. Future requests for this type of equipment will be bid using definitive specifications.

The procurement for the consultant for emergency preparedness training was because this vendor was the only one we knew had experience with prison requirements. Future requirements will be bid or an RFP will be prepared.

B. Inappropriate Emergency

One emergency procurement was inappropriate.

<u>Purchase Order</u>	<u>Description</u>	<u>Amount</u>
0100145178	Used portable classrooms	\$50,000

The emergency justification for the used portable classrooms failed to address the event that created the emergency condition. It appears the Department imposed time constraints which only allowed the procurement to be made under emergency procedures. Since the emergency condition was created by the Department and not by conditions outside of the Department's control, we find the action to be inappropriate.

We recommend the Department solicit competition for this type of service.

DEPARTMENT RESPONSE

The emergency procurement was due to imposed time constraints by the Youthful Offenders Program of the Department of Corrections. Better planning will be done to eliminate emergencies of this nature and a bid will be published.

C. Drug Free Workplace Certification Not Obtained

During our review of sole source and emergency procurements, we learned the Department has not been requesting the drug free workplace certification from vendors who receive contracts of \$50,000 or more. Section 44-107-30 of the South Carolina Code of Laws requires on any contract of \$50,000 or more that a certification be obtained stating that the vendor maintains a drug-free workplace. Sole source and emergency procurements are subject to this law.

We recommend the Department obtain the drug free workplace certification on all sole source and emergency contracts greater than \$50,000.

DEPARTMENT RESPONSE

We have mailed to each vendor specified in a sole source or emergency where the dollar value exceeds \$50,000 a form to fill out and return affirming they will comply with the requirements for the Drug Free Workplace as required by Section 44-107-30 of the South Carolina Code of Laws.

II. Construction and Construction Related Services

A. Unauthorized Procurement of Architect and Engineer (A/E) Services

One procurement of A/E services was not submitted to the State Engineer's Office for approval as required by Section 11-35-3230 of the Code.

<u>Purchase Order</u>	<u>Location</u>	<u>Amount</u>
H000212965	Northside Prison Industries Building	\$15,000

The procurement was unauthorized as defined in Regulation 19-445.2015. The Department must request ratification of the unauthorized procurement in accordance with this Regulation.

We recommend all architect and engineer contracts be approved by the State Engineer's Office.

DEPARTMENT RESPONSE

With changing in personnel and automation of records at the State Engineer's Office and our Agency, we have been unable to find documentation in file for submission of SE-230. We are submitting a ratification letter for this transaction.

B. Change Orders Not Submitted Timely

The Department issued six change orders for the construction of the Northside Prison Industries Building on project N04-9586. Change orders one to five were dated February 10, 1997. Change order 6 was dated April 28, 1997. The change orders were submitted to the State Engineer on July 9, 1997. Section 7.7 of the Manual for Planning and Execution of State Permanent Improvements requires that change orders within an agency's certification be submitted as information to the State Engineer within 30 days.

We recommend the Department submit change orders to the State Engineer within 30 days.

DEPARTMENT RESPONSE

We concur and in the future we will adhere to the requirement of submitting to the State Engineer change orders within the 30 day requirement.

III. Procurement Audit Exceptions

A. Two-Way Radio Repair Contract Needed

Our review of blanket purchase order H300006995 for two-way radio repairs revealed a major service being furnished to the Department by one vendor without any competition. The purchase order was supported by a requisition which identified the procurement as a blanket purchase agreement. However, the purchase order was written for \$28,638 for labor and material to repair radios for July of

1998. A review of expenditure records revealed that \$144,583 and \$221,459 were expended in fiscal years 97/98 and 98/99 respectfully. Blanket purchase agreements are defined Regulation 19-445.2100(B)(1) as a simplified method of filling anticipated repetitive needs for small quantities of supplies or services by establishing accounts with qualified sources. At this level of activity, the Department should have competed a contract for radio repair services.

While reviewing the invoices used to support a payment for the purchase order H300006995, we discovered that the Transportation Department prepared the vendor's invoices. The vendor supplied the Transportation Department with blank, pre-numbered invoices. The person responsible stated that the blank invoices were completed to consolidate the small invoices actually prepared by the vendor. The reason given to us for this highly irregular activity of consolidating the invoices was to reduce the number of invoices supporting the voucher. The online accounting system could not handle the number of line items each individual invoice would require. We also reviewed each of the invoices used for the payment to confirm that consolidated invoices were indeed supported by the actual invoices prepared by the vendor. No discrepancies were noted between invoices prepared by the Department and the actual invoices prepared by the vendor. Under no circumstance should Department personnel prepare vendor invoices and submit them for payment. Once a competed contract is put into place, the Department could require the vendor to bill monthly using a statement supported by individual repair orders.

We recommend the Department solicit competition for two-way radio repair services. The Department should discontinue the practice of allowing Department personnel to prepare vendor invoices for payment. We also recommend the Department audit the transactions that were processed by the Transportation Department using the blank pre-numbered invoices.

DEPARTMENT RESPONSE

We will prepare a bid for radio repairs. The practice of preparing vendor invoices for payment has ceased. An audit has been performed on the transactions processed by our Transportation Department using the blank pre-numbered invoices and found to be accurate.

B. Procurements Without Competition

Purchase order H000230358 for \$5,638 was issued against a contract for thirteen different tire sizes. However, the purchase order included \$2,641 for tires that were not included in the contract

resulting in no competition being solicited for these tires. Additionally, purchase order H300009632 for \$7,773 was issued for miscellaneous tires that were picked up during the month of August 1998 that were not covered by any contract nor was competition solicited.

We recommend the Department solicit competition for tires that are not on contract.

Purchase order 300017329 for \$18,145 was issued to purchase a Dodge Caravan. The purchase order referenced the term contract. However, the term contract was for another vendor and a Plymouth Voyager. The Department did not solicit competition for the Dodge Caravan as the vendor sold the vehicle at the term contract price. Ordering the Dodge Caravan from a non-contract vendor in no way justifies this procurement even if the vendor agrees to match the contract price.

We recommend the Department comply with the competitive requirements of the Code when purchasing items not on term contract.

DEPARTMENT RESPONSE

We concur with the recommendation. A tire bid has been solicited with know sizes of tires we use. Also in the bid we are requesting a tire manufacturer's price list with a fixed discount on tires not listed for requirements nor known at this time.

We will comply with the competitive requirement when the contract holder cannot supply our requirements on vehicles and other goods/services.

C. Quantities Not Specified in Solicitations

We reviewed solicitation 680-269802-9/18/98 to establish a contract for one year for police protection equipment and supplies. Estimated quantities were not listed in the solicitation. Consequently, vendors could not determine if the Department intended to purchase one box or a hundred cases of the items. Estimated quantities were not included on solicitation 675-269733-10/19/98 for insecticides, mousetraps, and herbicides.

Vendors typically offer better pricing on larger quantities. Therefore, it is essential to inform vendors of the potential value of contracts being solicited.

We recommend the Department provide estimated quantities in solicitations.

DEPARTMENT RESPONSE

We concur with the recommendation and subsequent bids will have quantities listed.

D. File Documentation

The Department solicited quotes for the transfer of approximately 6,700 gallons of fuel. The low quote was \$2,000. Purchase order H000228039 was issued for \$3,100 for the transfer of fuel based on the invoice rather than the quote. The file did not contain documentation to explain the increase of \$1,100.

Purchase order H000230370 was issued for \$7,031 to purchase tractor repair parts from an agency contract established by the Materials Management Office. Some of the items on the invoice showed the discount from the list price and some did not. The contract was awarded based on the discount from the list price. Since each item on the invoice did not show the discount, we could not verify if the invoice prices were in accordance with the contract. The Department could not verify the prices either.

We recommend the Department maintain sufficient documentation to support its contract files. Invoice prices should be verifiable and prices confirmed before payments are authorized.

DEPARTMENT RESPONSE

The increase of \$1,100 on purchase order H000228039 for transfer of fuel from an underground tank was justified. When the tank was rodged to determine the amount of fuel contained in the tank, quotes were received for this amount of fuel. After pumping, we discovered a greater amount of fuel was in the tank. Also, when removing the underground tank, it was tilted and the rodding was done on the shallow end of the tank.

Purchases of tractor parts are verified on a monthly basis before the vendor is paid to ensure we are obtaining correct prices in accordance with the contract established by Material Management Office.

E. Inadequate Solicitations of Competition

Two of the written quotes used to support the procurement of lumber were old quotes. Purchase order H300005543 was issued on August 5, 1998 for \$4,594. One of the quotes used to support the procurement was dated February 23, 1998 and a second quote was dated March 4, 1998. Neither quote was low. The quote from the awarded vendor was not dated. Additionally, the quantities listed on the three quotes did not agree to the quantities listed on the purchase order.

We recommend that competition be solicited based on the anticipated order date and estimated quantities.

DEPARTMENT RESPONSE

This procurement was done by a decentralized procurement officer located at Wateree Farm. This responsibility has been transferred to the Central Purchasing Office and correct documentation of quotes will be on each purchase order.

IV. Procurement Office Needs Information Technology Upgrade

The Procurement Office needs to upgrade its information technology equipment. The upgrade should include Internet, email and fax capabilities for each of the procurement personnel. Access to the Internet will allow the Procurement Office to communicate with vendors, research product information and obtain information on State contracts. Email and fax capabilities will enhance the efficiency and effectiveness of the service delivery of the Procurement Office.

We recommend the information technology equipment be updated.

DEPARTMENT RESPONSE

When the audit was performed, the Central Purchasing Office had only one personal computer with capabilities of accessing state contracts, etc. We now have three and are assured we will get more when money is available to procure.

V. Internal Procurement Procedures Manual

The internal procurement procedures manual is being updated to reflect the most recent changes to the Code and regulations. This action was prompted from an audit exception addressed by the Internal Auditor at the Department. We were unable to review the manual since it is in the process of being updated.

We recommend the manual be submitted to our office for review per Regulation 19-445.2005.

DEPARTMENT RESPONSE

The updated manual was provided at the formal exit on February 14, 2000.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, will in all material respects place the South Carolina Department of Corrections in compliance with the Consolidated Procurement Code and ensuing Regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we will recommend the Department be recertified to make direct agency procurements for three years up to the limits as follows.

PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Goods and Services	*\$100,000 per commitment
Information Technology	*\$100,000 per commitment
Consultant Services	*\$50,000 per commitment
Construction Contract Award	*\$50,000 per commitment
Construction Contract Change Order	\$25,000 per change order
Architect/Engineering Contract Amendment	\$10,000 per change order

*Total potential purchase commitment whether single year or multi-term contracts are used.



Robert J. Aycock, IV
Audit Manager



Larry G. Sorrell, Manager
Audit and Certification

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R. VOIGHT SHEALY
ASSISTANT DIRECTOR

March 3, 2000

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the response from the South Carolina Department of Corrections to our audit report for the period of July 1, 1996 – June 30, 1999. Also we have followed the Department's corrective action during and subsequent to our fieldwork. We are satisfied that the Department has corrected the problem areas and the internal controls over the procurement system are adequate.

Therefore, we recommend the Budget and Control Board grant the South Carolina Department of Corrections the certification limits noted in our report for a period of three years.

Sincerely,



Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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